STATE OF CALIFORNIA   KATHLEEN CONNELL
                                                                    __ Controller of California __

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P.O. Box 942850
Sacramento, CA 94250-5878

DATE: October 17 , 2002   PERSONNEL LETTER # 02-027
                                                  (CSU ONLY)

TO: All Campuses in the Uniform State Payroll System

FROM: RALPH ZENTNER, Assistant Chief
         Personnel/Payroll Services Division

RE: **LUMP SUM PAY DEFERRAL TO NEXT TAX YEAR AND DEFERRED COMPENSATION/TSA/PST DEDUCTIONS**

Labor Code sections 201, 202, and 219 dealing with the timely issuance of separation pay limited the state's ability to allow employees to defer lump sum separation pay into the next tax year and/or have deferred compensation (DC), tax sheltered annuity (TSA), or part-time seasonal temporary (PST) retirement plan deductions withheld from lump sum separation pay. Assembly Bill (AB)1684 amended the Labor Code sections to accommodate the aforementioned special handling of lump sum separation pay when requested by the employee. Refer to CSU Technical Letter HR/EHDB 2002-03 for additional information.

Under AB1684, an employee must submit a written request at least five days prior to his/her date of separation to request special handling of his/her lump sum separation pay. All or part of the lump sum separation pay for either unused or accumulated vacation or holiday leave to which the employee is entitled or compensating time off due to previous overtime worked may be eligible for special processing.

DEFER LUMP SUM PAY TO THE NEXT TAX YEAR

That portion of the lump sum separation pay that extends beyond the November pay period in the year of separation may be deferred and issued in the following tax year. See the attached for PPT documentation instructions.

NOTE: If the employee requests DC, TSA, or PST deductions in addition to deferral to the next tax year, all the documentation must be submitted to PPSD for manual processing. See below for the deduction processing information.

WITHHOLD DC, TSA, OR PST DEDUCTIONS FROM LUMP SUM PAY REQUESTED VIA PPT ITEM 621

Effective immediately, use Item 999 and Line H Remarks on the separation PPT document to request DC, TSA or PST deductions from lump sum pay. The Form STD. 674 should only be used when correcting Item 999/Line H Remarks and no other items on the separation PPT need to be corrected.

The separation PPT with the DC, TSA or PST deduction request must be manually processed by the State Controller's Office, Personnel/Payroll Services Division (PPSD). To expedite processing, the PPT documentation may be FAXED to (916) 322-8137. Please call your CSU Audits' Representative to alert them to watch for the FAX.

The following are the specific processing instructions to have DC, TSA or PST deductions from lump sum pay.

Eligibility: The employee must have a valid 401(k), 457, 403(b) account established prior to the separation or be currently covered under the PST retirement plan.

Documentation: Follow instructions in PIMS Manual for completion of the appropriate separation PPT transaction. In PPT Line G, enter '999. See Remarks' and in the Line H Remarks area, enter all of the following.

1. 'Employee requests DC, TSA, or PST deductions from Lump Sum Pay.'

2. The deduction code(s) for the DC, TSA, or PST plan.

3. The pay periods from which the deductions are to be withheld.

4. The specific deduction amount to be withheld from each deduction code and pay period.

NOTE: For DC and TSA deductions, the total amount of all deductions withheld during the tax year cannot exceed specified plan limitations. Also, the total maximum deduction amount that can be withheld from each pay period must not exceed the lump sum payment's salary gross less social security/medicare taxes (if applicable) and mandatory deductions. See PPM Section H 012 for further information on the mandatory deductions applicable to lump sum payments. The Paycheck Calculator can be used to determine the maximum deduction amount that can be requested for each pay period. The calculator can be accessed at the following web site address: http://sco.ca.gov.ppsd/empinfo/calc/paycalc.htm. The web site can also be accessed via a link from the SCO homepage at http://sco.ca.gov (from the homepage, click on the 'State Employee' button then click on 'Paycheck Calculator Download').

For PST deductions, multiply the gross of each lump sum pay period pay from which the PST deduction is to be withheld by 7.5% to derive the PST deduction amount.

Examples for showing the deduction information on the PPT:

Deduction Code	Pay Period	Amount
026-401	07/02	$400.00
026-401	08/02	$400.00
026-401	09/02	$400.00
026-401	10/02	$400.00

or

Deduction Code	Pay Period	Amount
026-401	07/02	$400.00
027-457	07/02	$400.00
026-401	08/02	$400.00
027-457	08/02	$400.00

or

Deduction Code	Pay Period	Amount
026-457	09/02	$300.00
027-401	09/02	$400.00
027-401	10/02	$400.00
027-401	11/02	$400.00

WITHHOLD DC, TSA, OR PST DEDUCTIONS FROM LUMP SUM OVERTIME PAY REQUESTED VIA THE PIP SYSTEM

From STD. 674 must be submitted to request DC, TSA or PST deductions from lump sum FLSA overtime normally requested via the PIP system. Complete the Form STD. 674 per PPM Section D 011. In the Remarks area, include a statement that the employee requests DC, TSA or PST deductions and identify the DC, TSA or PST deduction code(s) and corresponding deduction amounts (see above for additional deduction amount information). Also, as indicated above, the employee must have a valid 401(k), 457, 403(b) account established prior to the separation or be currently covered under the PST retirement plan.

To expedite processing, the Form STD. 674 may be faxed to (916) 322-8137. Please call the CSU Telephone Liaison Unit at (916) 322-7980 to alert them to watch for the fax.

Questions regarding the above information can be directed to the following contacts:

AREA	CONTACT	TELEPHONE NO.
PPT Documentation Instructions	CSU Audits' Representative	
Lump Sum Payments and/or Deductions	CSU Telephone Liaison Unit	(916) 322-7980
AB 1684 and/or the Labor Code Provisions Administration	CSU Human Resources	(562) 961-4411

Attachment

RZ:PMAB:JLD

DOCUMENT PROCESSING INSTRUCTIONS TO DEFER LUMP SUM PAY REQUESTED VIA PPT ITEM 621

To defer part or all of the lump sum to the next tax year, it will be necessary to process two separation transactions (the original at the time of the separation and a correction to the original in January of the following year).

STEP 1.

Follow instructions in the PIMS Manual for completion of the appropriate separation PPT transaction with the following exceptions:

Item 621 - Enter the Lump Sum time to be paid in the current tax year. NOTE: If the effective date of separation is in November, only that portion of the lump time that extends beyond the November pay period in the year of separation may be deferred and issued in the following tax year.
Line G   - If applicable, enter '999 see remarks'.
Line H Remarks - If Line G is completed per above, enter 'Employee requests DC/TSA/PST deductions from lump sum', the deduction code(s), pay period(s), and amounts (see above for specific examples).

NOTE: If Line G and Line H Remarks are completed per above, the separation PPT documentation must be submitted to PPSD for processing. See above for additional information.

STEP 2.

In January of the following year, process a correction to the separation transaction per the PIMS Manual with the following exceptions:

Items 621 - Enter the total lump sum time due employee including the amount entered on the original separation transaction.
Line G   -   Enter '877/Y' and if applicable, '999 see remarks'.
Line H Remarks - If Line G is completed with '999 see remarks', enter 'Employee requests DC/TSA/PST deductions from lump sum', the deduction code(s), pay period(s), and amount(s) (see above for specific examples).

NOTE: If Line G and Line H Remarks are completed per above, the correcting separation PPT documentation must be submitted to PPSD for processing. PPSD must receive the document by January 15th to ensure compliance with the Labor Code provisions.